

Message Text

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PAGE 01 STATE 172214
ORIGIN PM-05

INFO OCT-01 EA-07 NEA-10 ISO-00 L-03 EB-07 XMB-02
DODE-00 IO-13 AID-05 IGA-02 OMB-01 TRSE-00 SS-15
MC-02 NSC-05 ACDA-07 INR-07 SSO-00 NSCE-00 INRE-00
/092 R

DRAFTED BY PM/SAS:FCORRY/RS
APPROVED BY PM/SAS - ANTHONY KOCHANЕК
EA/ANT - MR. GALLAGHER
EA/RA - LTC EILAND
L/PM - MR. BOREK
EB/ODF - MR. PARKER
EXIM - MR. HAMILTON (PHONE)
DOD/DSAA - MR. VIOLETTE
PM - MR. ERICSON

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-----045834 230257Z /72
O 222303Z JUL 77
FM SECSTATE WASHDC
TO AMEMBASSY NEW DELHI IMMEDIATE
AMEMBASSY WELLINGTON
INFO AMEMBASSY CANBERRA IMMEDIATE

C O N F I D E N T I A L STATE 172214

FOR DEPUTY SECRETARY'S PARTY

E.O. 11652: GDS

TAGS: MASS, IN, NZ, AS, US

SUBJECT:FINANCING OF MILITARY PURCHASES

REF: WELLINGTON 3626

1. REFTEL ADVISED THAT "IN CONTEXT OF BOTH ANZUS AND
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PAGE 02 STATE 172214

BILATERAL USG/GNZ TALKS IN WELLINGTON, SOMEONE FROM DEPUTY
SECRETARY'S PARTY SHOULD BE PREPARED TO DISCUSS ADMINISTRA-
TION'S POSITION ON FINANCING OF MILITARY SALES TO AUSTRALIA
AND NEW ZEALAND INCLUDING REVIEW OF ALTERNATIVE FINANCING
ARRANGEMENTS AND ADVANTAGES OF EACH."

2. WITH RESPECT TO NEW ZEALAND, WE RECOGNIZE THAT NEW

ZEALAND HAS FUNDAMENTAL ECONOMIC DIFFICULTIES INCLUDING A SUBSTANTIAL BALANCE OF PAYMENTS DEFICIT. ON THE OTHER HAND, OUR ESTIMATE OF NEW ZEALAND'S LIKELY MILITARY PURCHASES ABROAD IS VERY LOW (DOLS 4.0-DOLS 5.0 MILLION IN FY 77 AND DOLS 3.5 MILLION IN FY 78). THE AUSTRALIAN SITUATION IS QUITE DIFFERENT: THE BASIC ECONOMIC POSITION IS QUITE STRONG, ALTHOUGH AUSTRALIA IS AFFECTED BY SHORT-TERM PROBLEMS CAUSED BY CAPITAL FLIGHT. CURRENT ESTIMATES INDICATE AUSTRALIA PURCHASE PLANS ARE OF GREATER MAGNITUDE (DOLS 275-DOLS 300 MILLION IN FY 77 AND POSSIBLY DOLS 100 MILLION IN FY 78, UNLESS IT CONCLUDES FIGHTER AIRCRAFT PURCHASE FOR

ADDITIONAL ESTIMATED DOLS 700 MILLION). BOTH GOVERNMENTS ARE CONSIDERED GOOD CREDIT RISKS IN THE INTERNATIONAL BANKING COMMUNITY; HENCE, IT IS LIKELY THAT NEITHER SHOULD HAVE DIFFICULTY IN OBTAINING COMMERCIAL CREDIT.

3. THEORETICALLY, THERE ARE THREE WAYS IN WHICH USG COULD BECOME INVOLVED IN FINANCING OF SALE OF DEFENSE GOODS AND SERVICES: (A) EXIMBANK CREDIT; (B) FMS CREDIT; AND (C) USG GUARANTEES OF PRIVATE COMMERCIAL FINANCING GIVEN THROUGH EXIMBANK OR DOD GUARANTEE OF FEDERAL FINANCING BANK. A CATCH 22 SITUATION IS INVOLVED HERE: UNDER ESTABLISHED POLICY, PRIVATE BANK OR EXIMBANK FINANCING, RATHER THAN FMS CREDIT OR LOAN GUARANTEES ARE TO BE RELIED UPON TO THE MAXIMUM EXTENT POSSIBLE IN FINANCING SALES TO DEVELOPED COUNTRIES.

CONFIDENTIAL

PAGE 03 STATE 172214

COUNTRIES (SUCH AS BOTH NEW ZEALAND AND AUSTRALIA). AS A PRACTICAL MATTER, HOWEVER, EXIMBANK HAS NOT EXTENDED CREDIT OR GUARANTEES FOR ARMS PURCHASES FOR PAST YEAR. PRESENT EXIMBANK POLICY DOES NOT INVOLVE FINANCING PURCHASES OF MILITARY EQUIPMENT. FMS DIRECT CREDITS, RARE TODAY, ARE NORMALLY MADE AVAILABLE ONLY TO LESS-DEVELOPED COUNTRIES AND THEN ONLY FOR OVERRIDING NATIONAL INTEREST CONSIDERATIONS. FMS CREDIT GUARANTEES THROUGH FFB ARE NORMALLY PROVIDED ONLY TO LDCS.

4. WITH RESPECT TO CONGRESSIONAL ATTITUDES, WE ESTIMATE THAT CONCERN WOULD BE MORE GENERAL THAN COUNTRY-PECULIAR, I.E., ADDING A NEW COUNTRY FOR A PROGRAM WHERE CONGRESSIONAL PRESSURE IS TO REDUCE AND CONSTRAIN IT. WE HAVE TAKEN POSITION THAT ONE OBJECTIVE IN OUR ARMS SALE POLICY HAS BEEN TO MOVE FROM GRANT AID TO CREDIT SALES TO CASH SALES. WE BELIEVE THERE MIGHT BE SUBSTANTIAL RESISTANCE ON HILL TO EXTENSION OF FMS FINANCING TO A COUNTRY WHICH HAD REACHED STATUS OF BEING ABLE TO PURCHASE ARMS FOR CASH, AND SUCH FINANCING COULD PROVOKE AMENDMENT TO ARMS EXPORT CONTROL ACT TO REMOVE MUCH OF PRESENT FLEXIBILITY. ALSO THERE WILL BE PRESSURE TO HOLD OVERALL FMS CREDIT

LEVELS AT OR BELOW CURRENT FY LEVELS.

5. NEVERTHELESS, IN THE EVENT THAT THERE SHOULD BE A FORMAL REQUEST FROM EITHER GNZ OR GOA FOR SUCH FINANCING, WE ANTICIPATE SERIOUS POLICY PROBLEMS; MEETING SUCH A REQUEST WOULD REQUIRE HIGH-LEVEL INTER-AGENCY REVIEW OF ALL ISSUES INVOLVED--WITH ATTENDANT GLOBAL POLICY IMPLICATIONS.

6. THUS, SHOULD ISSUE ARISE, WE SUGGEST THAT MEMBERS OF THE UNDER SECRETARY'S STAFF NOTE TO GOVERNMENTS CONCERNED PROBLEMS THAT WOULD BE POSED FOR USG, DRAWING UPON INFORMATION IN PARAS 2 TO 6 ABOVE. SHOULD GOVERNMENTS MAKE SPECIFIC

REQUEST, WE BELIEVE BEST APPROACH FOR MOMENT WOULD BE TO CONFIDENTIAL

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PAGE 04 STATE 172214

UNDERTAKE TO REVIEW POLICY ISSUES INVOLVED. VANCE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, MILITARY SALES, LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 22-Jul-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: FCORRY/RS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
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From: STATE
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Line Count: 137
Litigation Code IDs:
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Litigation History:
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Office: ORIGIN PM
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 WELLINGTON 3626
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1770840
Secure: OPEN
Status: NATIVE
Subject: FINANCING OF MILITARY PURCHASES
TAGS: MASS, IN, NZ, AS, US
To: NEW DELHI WELLINGTON
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9bdaf264-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009